Global Strategy: Quadrant

US Elections, Risk and Reward

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- Vanishing bond yields and signs of a future rebound in corporate profits have rallied world markets and insulated assets from any deep shock over European politics. We believe the Brexit vote is a regional "overlay" to the under-rated impact of easing credit markets and the petroleum industry's early-cycle recovery.

- Nonetheless, rising asset prices mean lower future returns. While we still see stronger opportunities in global equities markets than Fixed Income (FI) markets overall, the +7.5% return in US equities in the year-to-date comes close to our expectation for a rebound in US EPS over the coming year. Seven years deep into the present US business cycle recovery, we reduced US equities to neutral, or a "full" weighting from overweight.

- Like Brexit, political risks in the US may be under-rated. There are uncertain transition costs and policy issues for either candidate and a new Congress. **Of the 11 post World War II US recessions, eight have overlapped a new president's first year in office.**

- Away from political "black swans," most evidence suggests the US recovery can endure another year. With a lack of value in bonds, this dissuades us from moving to underweight equities. (Globally, we underweight FI by 1.0%, neutral equities).

- The word "yield" might now be replaced with "storage fee" for much of the world. A full one third of global sovereign bond yields are now negative, while two thirds of all investment grade debt – including corporates – yield less than 2%.

- The historic yield declines benefit income-producing equities and highlight the difficulty of investing in "defensive" assets to offset volatility. One exception is gold, which is likely to offer value on a price correction. The low level of expected volatility in equities favors using derivatives for hedging vs government bonds.

- Large interest rate differentials across markets still offer opportunities in FI as DM sovereign yields plunge. We continue to overweight US dollar FI, LatAm, and added to EM debt holdings in Asia and EMEA.

- Deep declines in Latin American currencies, oil's stabilization and improvements in credit, also add to Latin America's equity appeal. We added overweights to the Andean Markets (Chile, Columbia and Peru) while staying neutral Mexico and Brazil.

INVESTMENT PRODUCTS: NOT FDIC INSURED • NOT CDIC INSURED • NOT GOVERNMENT INSURED • NO BANK GUARANTEE • MAY LOSE VALUE

GIC July 21—Summary

The Citi Private Bank Global Investment Committee (GIC) reduced its allocation to global equities by 0.5% to neutral, left its underweight to global debt at -1.0% and raised its tactical cash overweight by 0.5% to +1.0%. Beneath these very broad allocations, the GIC continued to shift up emerging markets (EM) relative to developed markets (DM) in both equities and fixed income.

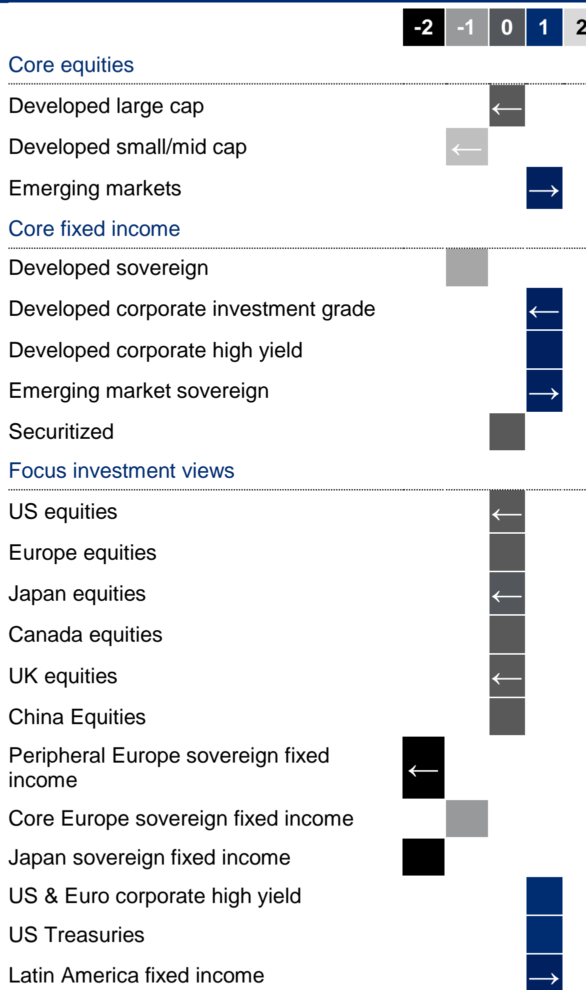
The GIC continues to expect equities to provide stronger future returns than fixed income markets on an absolute- or risk-adjusted basis, as our relative weightings imply. A full one third of global sovereign bond yields are now negative while two thirds of all investment grade debt – including corporate securities – now offer a yield of less than 2%. This benefits equities, highlights the difficulty of investing in "defensive" assets, and favors using derivatives for hedging.

Negative-yield bonds comprise the bulk of our global fixed-income underweight. However, large yield divergences in fixed income represent a continued opportunity. US high grade debt (corporate and municipal) remains our largest overweight. Today, we further cut a variety of Euro-denominated fixed income allocations after substantial yield declines and reinvested in EM fixed income in Asia and EMEA. We are now overweight in Latin America (hard currency and local), local Asian bonds, and neutral EMEA.

Globally, we believe equity income offers more favorable relative value in comparison to fixed income. However, in light of the strong recent rally, "full" or neutral allocations now appear more appropriate. The 7.5% year-to-date return for large cap US equities roughly matches the scope of the US corporate earnings recovery we expect for the coming year.

The US Election suggests political and economic risks beyond the confines of Europe. **Of the 11 post World War II US recessions, eight have overlapped a new US president's first year in office.** It is easy to overstate causality, yet the observation highlights that policy uncertainty and political transitions can be disruptive. While the US economy has shown signs of a more sustainable capacity to grow in 2016, we continue to see it in the later stages of a business cycle recovery.

Asset Classes



Allocations as of July 21, 2016.
–2 = very underweight; –1 = underweight; 0 = neutral
1 = overweight; 2 = very overweight

Arrows indicate changes from previous GIC meeting.

Given its negative correlation to risk assets, we continue to eye an appropriate entry point for a tactical overweight in gold. We pause as we believe markets somewhat underestimate the probability that the US Fed resumes raising US short-term rates, boosting the US dollar.

“Storage Fee” Replaces Yield

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Financial markets have been surprising pessimists. So have economies (see Figure 1). It’s been an incredibly complex year of experimental monetary easing, divergent credit and currency markets, with an overlay of political shocks and human tragedy. This has meant markets have indeed climbed a proverbial wall of worry.

What we have thought most important for financial markets– and under-rated – was the sharp rally in credit markets in 2016-to-date. This is partly a reflection of the incipient recovery in the global petroleum sector, but importantly, more radical monetary easing steps in the Eurozone (see Figure 2). With investors accepting 2% or below for 65% of the world’s investment grade bonds, and *paying borrowers* for 33% (those with a negative yield), why should investors demand high returns from equities?

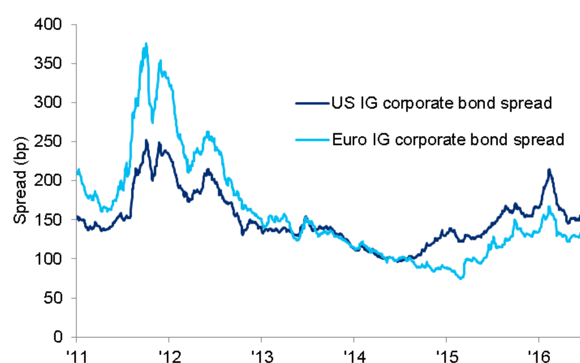
The easy state of global monetary policy has helped insulate markets from a significant or lasting correction following the UK’s vote to leave the European Union (EU) (please see Quadrant – Six Continents, Only One Brexit from July 6th). However, if that is fortuitous for existing portfolios, the strong returns just experienced will weaken future returns.

As the Citi Private Bank GIC met last week, US equity returns for the year-to-date were +7.5%. This is not some radically large return. High yield debt – another GIC overweight – has returned +12% over the same period. However, the US equity gain is roughly in line with the scope of the prospective earnings rebound we expect over the coming year, assuming no “external shocks.”

Figure 1:US and UK Economic Surprise Indices and MSCI World Stock Price Index

Source: Bloomberg as of July 22, 2016. MSCI All Country world index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment.

Figure 2: US and European Investment Grade Bonds Spread to Government Bonds



Source: FactSet as of July 22, 2016.

In a continued recovery, further progress in US equities should be made. Yet seven years deep into a US recovery, with some higher-than-usual political risks, we reduced our US and global equity weightings to neutral or "full" positions from overweight. If political risks don't materialize, we expect the relative value of equity income to result in outperformance. This is true in markets where political risks keep us from holding positions as large as we otherwise might if politics weren't an issue (see Figure 3).

Easy monetary policy may have limited both equity crash and rebound from Brexit

Figure 3. Euro Stoxx 50 Dividend Yield and European IG Corporate Bond Yield

Source: FactSet as of July 22, 2016. Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment.

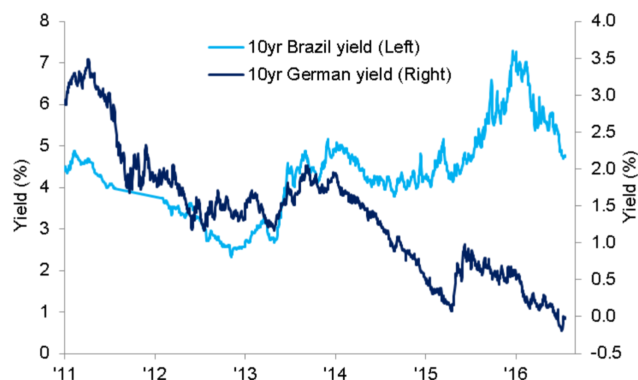
Shifting to Emerging Markets after Shunning Them

Opportunities to exploit "relative" value still abound. Over the course of 2016, the GIC has been shifting up its allocation to EM, particularly beaten down, petroleum-linked Latin American (LatAm) fixed income (see Figure 4).

With most European yields - from governments to corporates - falling below 1% this year, we cut our allocation to Eurozone debt issues across several categories and added a small overweight in local currency Asia debt (see Figure 5). We ended an underweight in EMEA.

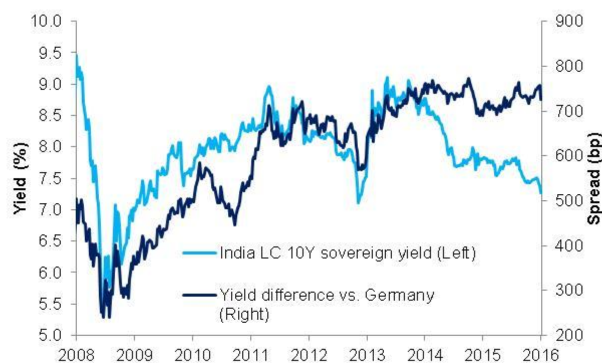
In equities, we added small overweights in "Andean" Markets (Chile, Colombia and Peru), where currency devaluations in recent years and collapsing commodities have left recovery opportunity (see Figure 6-Figure 8).

Figure 4: Hard-currency Brazilian and German 10-year Bond Yields have Moved Dramatically Apart



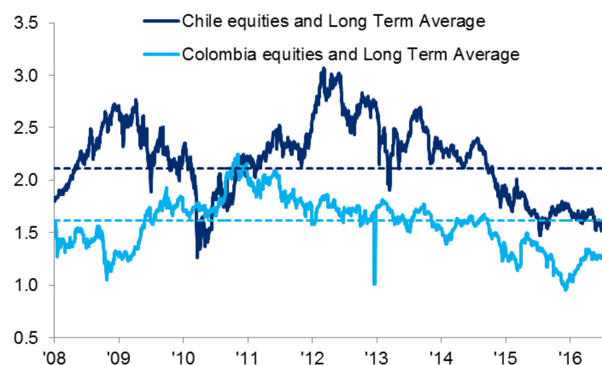
Source: Bloomberg as of July 22, 2016. Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment.

Figure 5: Indian Local Currency 10 Year Bond Yield and Spread to Germany



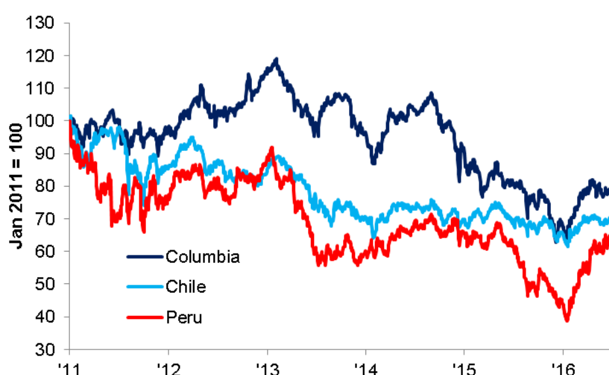
Source: Bloomberg as of July 22, 2016.

Figure 6: MSCI Chile and Columbia Consensus 12-Month Ahead Price to Book Ratio



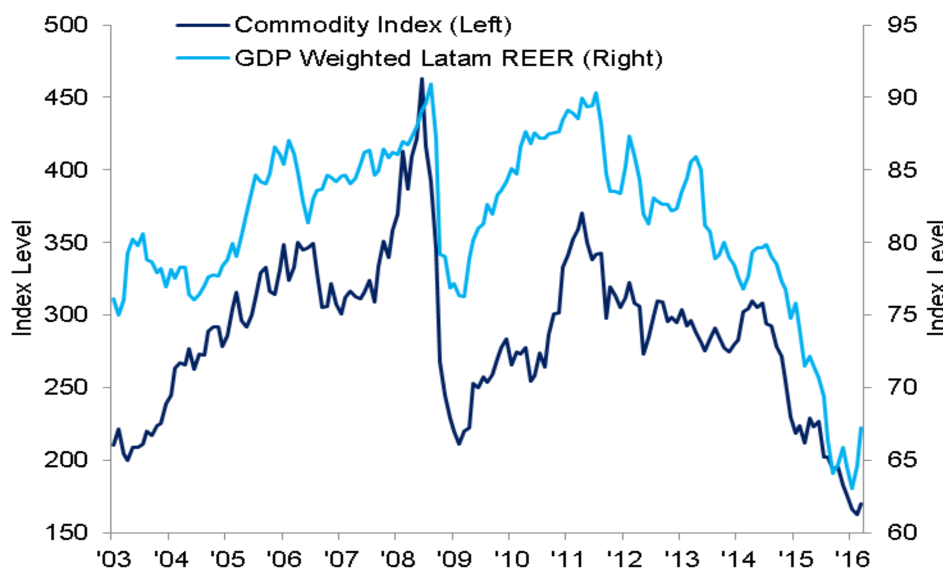
Source: Bloomberg as of July 22, 2016. Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment.

Figure 7: Chile, Columbia and Peru Stock Price Indexes in USD



Source: FactSet as of July 22, 2016. Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment.

Figure 8. Latin America Regional Trade-Weighted Currency Index vs Commodity Price Index



Source: Bloomberg as of July 22, 2016. Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment.

In addition to the cuts to US equities, we reduced Japanese shares to neutral as they have risen once again on (you guessed it) “policy expectations.” To make room for the Latin American equity overweights (ex-Brazil and Mexico), we added an underweight in UK small and mid-cap shares.

Now overweight emerging markets relative to developed, reversing allocations of recent years.

A significant drop in Sterling has been one of the few lasting consequences of the Brexit vote in financial markets (see Figure 9). While, it won’t do much to encourage new investment in the UK economy ahead of arduous and uncertain trade negotiations in the coming few years, the weak currency may encourage global producers to utilize their existing export capacity more fully in the UK. In Sterling terms, exporters will repatriate profits from abroad in appreciated terms. However, for domestic firms, the positive economic surprises we showed in Figure 1 pre-date the Brexit vote, and the coming performance should be less rosy (see Figure 10).

Figure 9: UK GBP per USD

Source: Haver Analytics as of July 22, 2016.

Figure 10: UK Consumer Confidence

Source: Haver Analytics as of July 22, 2016.

Expensive Assets, Cheap Hedges

The sharp declines in bond yield across most of the world – and comparable rising risk in equities – is blunting the value of traditional asset allocation tools. Many are quick to note the S&P 500's 18X price/forward earnings ratio or horrendous looking CAPE[1] of 28X. Yet US 10-year Treasuries sell for 64.5X annual cash flows, with guaranteed zero income growth. US Treasuries, meanwhile, have among the highest yields among high grade sovereign bond markets in the world

Figure 11 shows the history of the price/cash flow of 10-year US Treasuries in perspective. Such assets – and even more richly priced German, Swiss or Japanese bonds – are typically allocated to in order to provide income and reduce the risks taken in equities. Yet the high price of "defensive" assets deviates far more from their history than assets exposed to economic risk.

As Figure 11 also shows, the inflation adjusted price of gold (in US dollar terms), doesn't look so richly priced. It hasn't fallen in real terms as deeply as crude oil in recent years. Yet in a world of exceptionally low interest rates, "zero yield" hard assets have a lower opportunity cost for holders.

If all is well, why shouldn't the Fed resume tightening?

Compared to crude oil – where rolling futures contracts makes effective investment implementation more difficult – gold can be quite effectively bought and sold with high liquidity. As Figure 12 shows, gold is providing some of the negative correlation to equities that bonds otherwise would. With all this in mind, we believe markets for the moment somewhat under-price the probability that the US Federal Reserve will resume

1 This is a Cyclically Adjusted Price/Earnings Ratio and measures EPS with the prior 10 years of EPS based on Generally Accepted Accounting Principles. This is used to smooth out cyclical booms and busts in earnings. The current EPS level in this measure is perhaps somewhat depressed by the deepest post war recession (2008-2009). However, that period was followed by a profound EPS rebound in more recent years which is also included in the 10-year average. Our larger concern with the measure is that losses of individual firms can be unlimited, while the market cap of any firm is limited to zero. Therefore, concentrated losses for individual firms can mask the ongoing value of others. Nonetheless, the difference between so-called "operating" profits and GAAP has grown in a way that is consistent with increased late-cycle market risks.

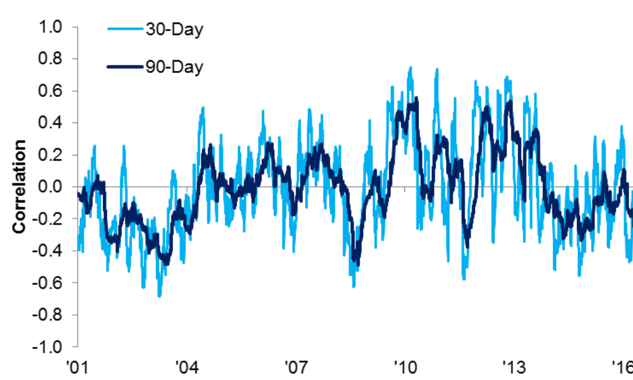
its mild tightening cycle. If gold falls in price or new risks materialize, we would strongly consider a tactical overweight in the metal.

While gold is a "permanent hedge," and bonds have become an expense one, the true bargain of the moment is expected volatility (see Figure 13).

Figure 11: Real Price of Gold and US 10-Year Treasury Yield

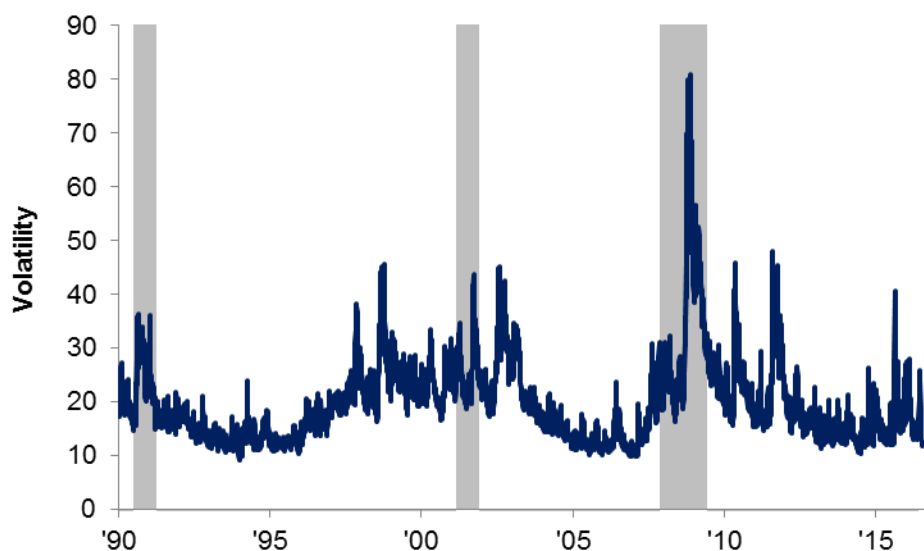
Source: Haver Analytics as of July 22, 2016.

Figure 12: Correlation of Daily Percent Change in Gold and S&P 500



Source: Haver Analytics as of July 25, 2016. Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment.

Figure 13. Implied Volatility on the S&P 500 (VIX)



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US Election Speculation

Since 1920, first year US Presidents saw recession 3x more often than in other years.

As we noted at the outset, in the absence of political shocks, we would expect equities to outperform fixed income returns on an absolute or risk-adjusted basis. Our new asset allocation – neutral global equities, underweight 1% in global fixed income - implies this. However, just as we adjusted our equity allocation somewhat lower on the mere possibility of Brexit in March of this year, US election risks encouraged us to err a tad cautious this month.

While it would be wrong to imply a consistent pattern of causation, of the 11 post-World War II US recessions, eight have overlapped a new president's first year in office. Since 1920, recession periods during a new US president's first year have been three times as common as in other periods (see Figure 14-Figure 16).

As we noted in Outlook 2016, there's been an overlooked tendency for the US electorate to choose Republican presidents close to business cycle peaks and Democrats when the US economy has been depressed and ripe for recovery (see Outlandish Outcomes in Outlook 2016). This and some contrary examples, such as Reagan's presidency, appear to explain the stronger growth readings and higher historic average stock market returns under Democrat administrations (see Figure 17-Figure 18).

Figure 14. Recessions in the First Year of a New Presidents Term

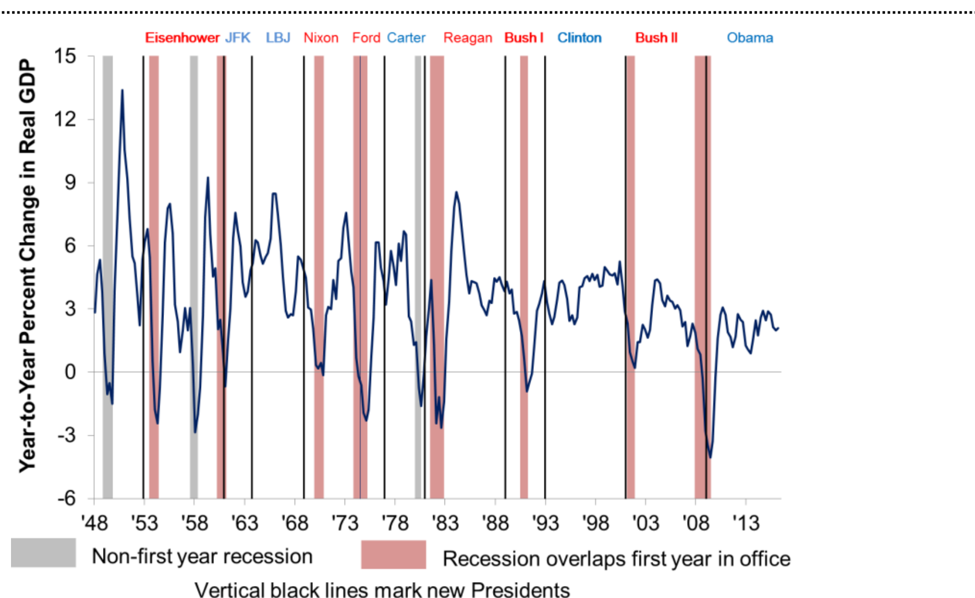
→ Harding (Republican, recession)	→ *Coolidge* (Republican, recession)	↓ Hoover (Republican, recession)	→ Roosevelt (Democrat, recession)
→ *Truman* (Democrat, recession)	↓ Eisenhower (Republican, recession)	→ Kennedy (Democrat, recession)	*Johnson* (Democrat)
↓ Nixon (Republican, recession)	→ *Ford* (Republican, recession)	Carter (Democrat)	↓ Reagan (Republican, recession)
Bush (Republican)	Clinton (Democrat)	↓ Bush II (Republican, recession)	→ Obama (Democrat, recession)

Legend:

Recession	(shaded)	New Recession	↓	Republican (red)
Replacement President	*Italics*	Continuing Recession	→	Democrat (blue)

Source: Haver Analytics as of July 25, 2016.

Figure 15. 8 of the 11 Post-World War II Recessions Overlapped a New President's First Year in Office



Source: Haver Analytics as of July 25, 2016.

Figure 16. 8 of the 11 Post-World War II Recessions Overlapped a New President's First Year in Office

Party	President	Innauguration Date	Recession Periods	First Year Recession Overlap?	Comment
D	Truman	Apr 1945	1 Nov 48-Oct49	No	
R	Eisenhower	Jan 1953	2 Jul 1953-May 54	Yes	
			3 Aug 57-Apr 58	No	
D	Kennedy	Jan 1961	4 Apr 60-Feb 61	Yes	Begins during prior admin.
D	Johnson	Nov 1963			
R	Nixon	Jan 1969	5 Dec 69-Nov 70	Yes	
R	Ford	Aug 1974	6 Nov 73-Mar 75	Yes	Spans appointment.
D	Carter	Jan 1977	7 Jan-80-Jul 80	Yes	Ends prior to Reagan's election.
R	Reagan	Jan 1981	8 Jul 81-Nov 82	Yes	
R	GHW Bush	Jan 1989	9 Jul 90-Mar 91	No	
D	Clinton	Jan 1993			
R	GW Bush	Jan 2001	10 Mar-2001-Nov 200	Yes	
			11 Dec 2007-		
D	Obama	Jan 2009	--Jun 2009	Yes	Begins during prior admin.

Source: Haver Analytics as of July 25, 2016.

Figure 17. Annualized Real S&P 500 Total Return and GDP Growth by Presidential Term

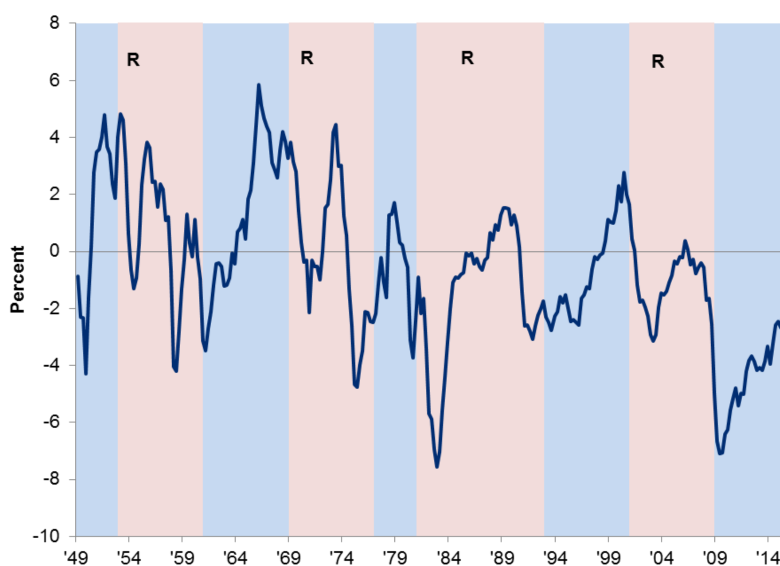
	Annualized Real S&P 500 Total Return (%)	Annualized Real GDP Growth (%)	Party
Truman	9.7	4.8	D
Eisenhower	13.3	2.5	R
Kennedy	9.9	5.3	D
Johnson	7.9	5.1	D
Nixon/Ford	-2.1	2.7	R
Carter	1.3	3.2	D
Reagan	9.4	3.6	R
Bush	11.0	2.2	R
Clinton	14.2	3.8	D
Bush II	-5.3	1.8	R
Obama*	12.4	1.7	D

*Obama result is through 2Q 2016.

Republican Weighted Average	4.6	2.6	
Democrat Weighted Average	10.1	3.7	

Source: Haver Analytics as of July 22, 2016. Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment. Past performance is no guarantee of future results.

Figure 18. US Output Gap and Presidential Party in Power



Source: Haver Analytics as of July 25, 2016.

Of course, a recession in the world's largest economy has outsized global implications, as we've long detailed (please see Outlook 2016: Enduring through Cycles). It also shouldn't be seen as a political statement to note that a Clinton administration – who's proposals would hardly change the sitting President's policies – represents a status quo and a less uncertain outcome than a Trump administration. Yet even a Clinton win would come with a transition to an unknown, new US Congress.

US "swing state" polling favors the political status quo.

As Figure 19 shows, current poling in so-called "swing states", implies a large Electoral College advantage for Clinton, much larger than the differences popular vote support might imply. Such measures leave markets for the moment assuming no change in the status quo. Yet the Brexit result should make us feel less confident in the predictability of political events. As Figure 20 and Figure 21 should suggest, the US economic recovery is at an advanced stage that shouldn't be considered "shock-proof."

Figure 19. Latest Swing State Polls and Electoral Votes

		Expected Vote Share*	
Swing State	**Electoral Votes**	**Clinton**	**Trump**
Virginia	13	**39**	**39**
North Carolina	15	**44**	38
Florida	29	**44**	37
Ohio	18	**44**	40
Colorado	9	**43**	35
Nevada	6	**45**	41
Iowa	6	39	**40**
Total Swing State Elector Votes / Average vote share			
Winner take all or split for tie		**84**	**13**
Simple average vote share		**43**	**39**
Electoral vote weighted share		**43**	**38**

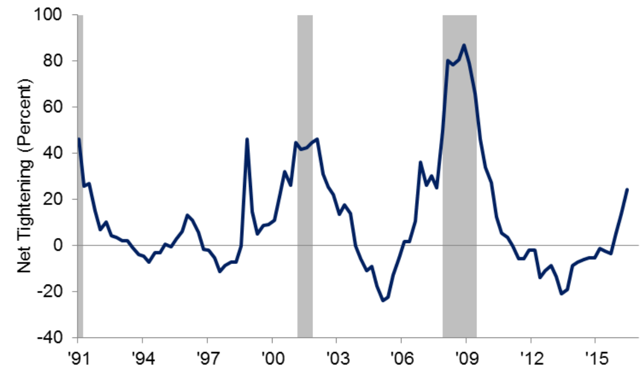
*May include 3rd Party candidates and all undecided.

Source: Real Clear Politics as of July 19, 2016.

Figure 20: Initial Jobless Claims and US Recessions

Source: Haver Analytics as of July 25, 2016.

Figure 21: Net Share of US Banks Tightening Commercial Real Estate Terms



Source: Haver Analytics as of July 25, 2016.

Global Asset Allocation
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Portfolio allocations

This section shows the strategic and tactical allocations for risk levels 1 to 5 set by Citi Private Bank's Global Investment Committee on July 21, 2016. Recommend allocations reflect annual rebalancing and model revisions.

Risk Level 1

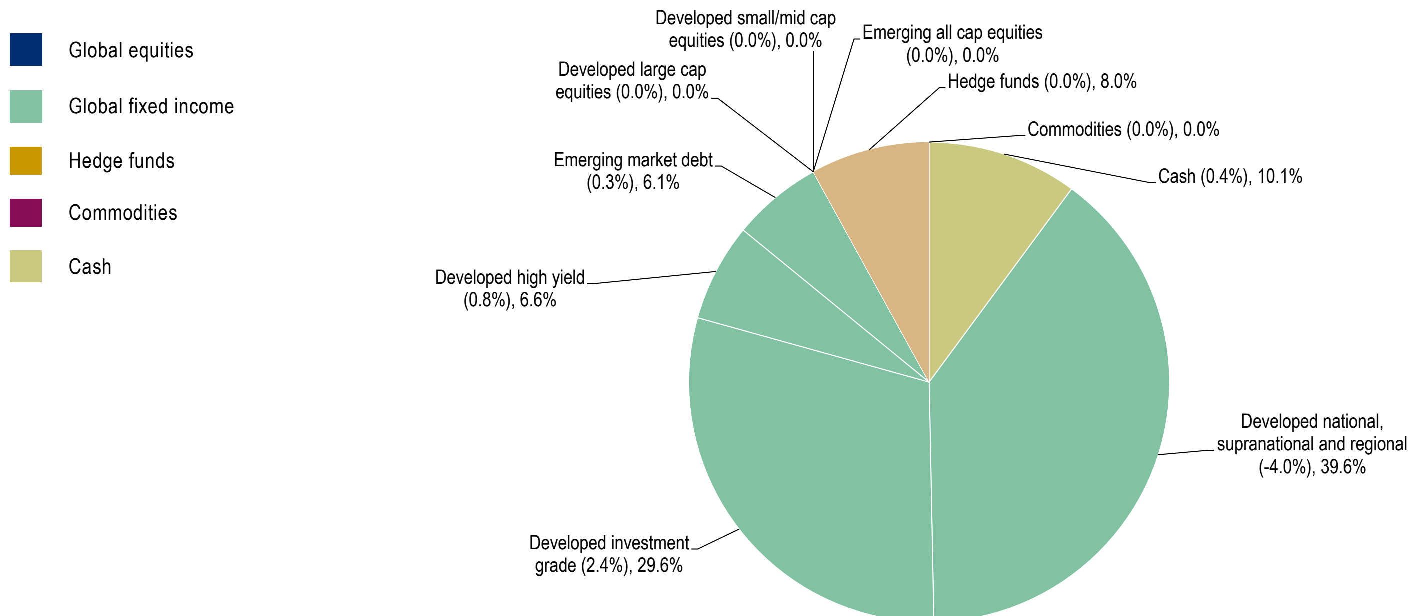
Risk Level 1 is designed for investors who have a preference for capital preservation and relative safety over the potential for a return on investment. These investors prefer to hold cash, time deposits and/or lower risk fixed income instruments.

Classification	Strategic (%)	Tactical* (%)	Active (%)
Cash	9.7	10.1	0.4
Fixed income	82.3	81.9	-0.4
Developed Investment Grade	70.8	69.2	-1.6
Developed national, supranational and regional	43.6	39.6	-4.0
Americas	15.0	15.9	1.0
EMEA	18.0	16.0	-2.0
UK	3.7	3.6	-0.0
Core Europe	8.0	7.1	-0.9
Peripheral Europe	5.8	4.8	-0.9
Others	0.6	0.4	-0.1
Asia	9.8	6.9	-2.9
Asia (ex Japan)	0.3	0.4	0.1
Japan	9.5	6.5	-3.1
Supranational	0.8	0.8	0.0
Developed corporate investment grade	27.2	29.6	2.4
Americas	19.4	21.7	2.3
US	18.7	20.9	2.3
Canada	0.7	0.8	0.0
EMEA	7.7	7.8	0.2
Europe (ex UK)	5.9	6.0	0.1
UK	1.8	1.8	0.0
Asia	0.1	0.1	0.0
Asia (ex Japan)	0.1	0.1	0.0
Japan	0.0	0.0	0.0

Classification	Strategic (%)	Tactical* (%)	Active (%)
Developed high yield	5.8	6.6	0.8
Americas	4.4	4.9	0.4
EMEA	1.3	1.7	0.4
Emerging market debt	5.8	6.1	0.3
Americas	0.7	0.9	0.3
EMEA	0.7	0.6	-0.0
Asia	4.4	4.5	0.1
Equities	0.0	0.0	0.0
Developed Equities	0.0	0.0	0.0
Emerging Equities	0.0	0.0	0.0
Hybrid investments	8.0	8.0	0.0
Hedge funds	8.0	8.0	0.0
Real Assets	0.0	0.0	0.0
Commodities	0.0	0.0	0.0
Total	100.0	100.0	0.0

Strategic = benchmark; tactical = the Citi Private Bank Global Investment Committee's current view; and active = the difference between strategic and tactical. MBS = mortgage-backed securities; ABS = asset-backed securities. All allocations are subject to change at discretion of the GIC of the Citi Private Bank. *The tactical allocation corresponds to a maturity of 7 to 10 years. Minor differences may result due to rounding.

Risk Level 1: tactical allocations



Figures in brackets are the difference versus the strategic benchmark

Strategic = benchmark; tactical = the Citi Private Bank Global Investment Committee's current view; and active = the difference between strategic and tactical. All allocations are subject to change at discretion of the GIC of the Citi Private Bank.

Core positions

- Global equities are reduced to neutral position while global fixed income remains at an underweight position of -0.4%. Cash is now at an increased overweight position.
- Within fixed income, developed sovereign continues to be the largest underweight at -4.0%. Developed corporate investment grade fixed income remains the largest overweight at +2.4% followed by high-yield at 0.8% overweight position.
- Emerging market fixed income is raised to a small overweight of 0.3% with both Latin America and Asia debt in overweight positions.
- Within equities, both developed and emerging equities are now at neutral allocation.

Risk Level 2

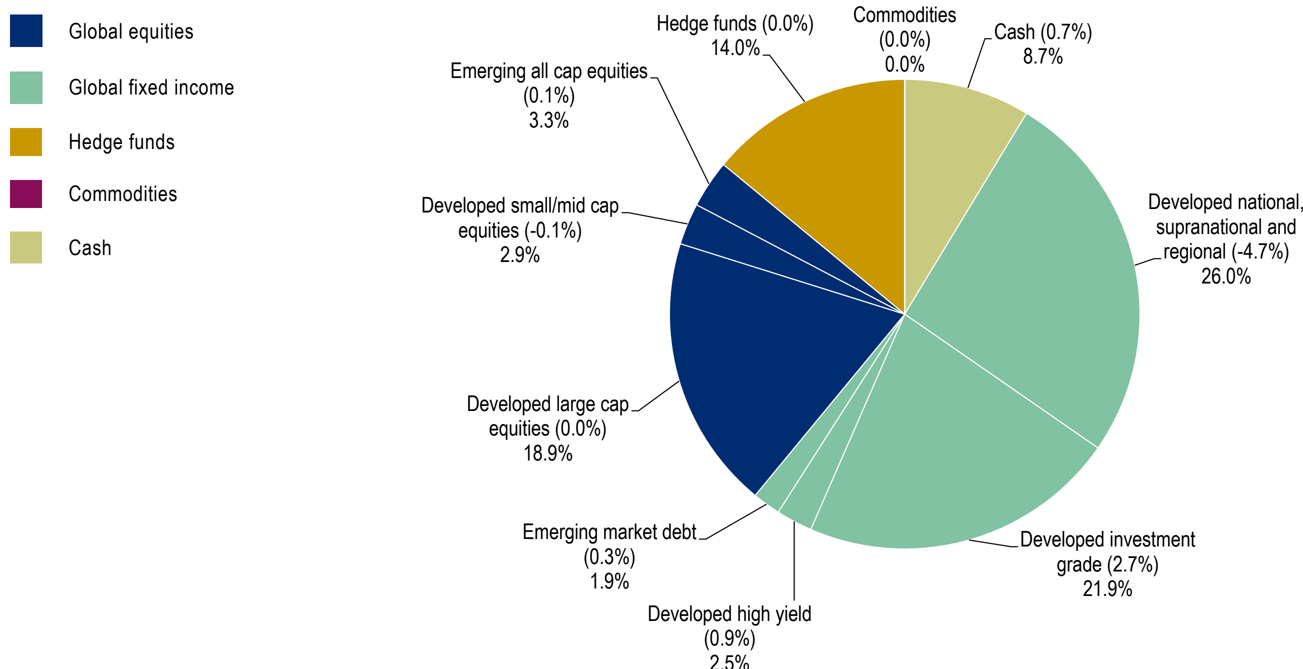
Risk Level 2 is designed for investors who emphasize capital preservation over return on investment, but who are willing to subject some portion of their principal to increased risk in order to generate a potentially greater rate of return on investment.

Classification	Strategic (%)	Tactical* (%)	Active (%)
Cash	**8.0**	**8.7**	**0.7**
Fixed income	**53.0**	**52.3**	**-0.7**
Developed Investment Grade	**49.8**	**47.9**	**-1.9**
Developed national, supranational and regional	**30.6**	**26.0**	**-4.7**
Americas	**10.5**	**11.5**	**1.0**
EMEA	**12.7**	**10.3**	**-2.4**
UK	2.6	2.5	-0.1
Core Europe	5.6	4.6	-1.1
Peripheral Europe	4.0	3.0	-1.1
Others	0.4	0.3	-0.2
Asia	**6.9**	**3.6**	**-3.3**
Asia (ex Japan)	0.2	0.3	0.1
Japan	6.7	3.3	-3.4
Supranational	**0.6**	**0.6**	**0.0**
Developed corporate investment grade	**19.1**	**21.9**	**2.7**
Americas	**13.6**	**16.3**	**2.6**
US	13.1	15.7	2.6
Canada	0.5	0.5	0.0
EMEA	**5.4**	**5.5**	**0.1**
Europe (ex UK)	4.1	4.2	0.1
UK	1.3	1.3	0.0
Asia	**0.1**	**0.1**	**0.0**
Developed high yield	**1.6**	**2.5**	**0.9**
Americas	**1.2**	**1.8**	**0.5**
EMEA	**0.4**	**0.7**	**0.4**
Emerging market debt	**1.6**	**1.9**	**0.3**
Americas	**0.2**	**0.4**	**0.2**
EMEA	**0.2**	**0.2**	**0.0**
Asia	**1.2**	**1.4**	**0.2**
Hybrid investments	**14.0**	**14.0**	**0.0**
Hedge funds	**14.0**	**14.0**	**0.0**
Real assets	**0.0**	**0.0**	**0.0**
Commodities	**0.0**	**0.0**	**0.0**

Classification	Strategic (%)	Tactical* (%)	Active (%)
Equities	**25.0**	**25.0**	**0.0**
Developed Equities	**21.8**	**21.7**	**-0.1**
Developed large cap equities	**18.9**	**18.9**	**0.0**
Americas	**11.9**	**12.0**	**0.0**
US all	11.3	11.3	0.0
Canada	0.7	0.7	0.0
EMEA	**4.4**	**4.4**	**0.0**
UK	1.4	1.4	0.0
Germany	0.6	0.6	0.0
France	0.6	0.6	0.0
Switzerland	0.7	0.7	0.0
Benelux	0.3	0.3	0.0
Scandi	0.4	0.4	0.0
Spain	0.2	0.2	0.0
Italy	0.1	0.1	0.0
Others	0.1	0.1	0.0
Asia	**2.5**	**2.5**	**0.0**
Australasia	0.5	0.5	0.0
Far East ex Japan	0.3	0.3	0.0
Japan	1.7	1.7	0.0
Developed small/ mid cap equities	**2.9**	**2.9**	**-0.1**
Americas	**1.7**	**1.7**	**0.0**
EMEA	**0.8**	**0.8**	**-0.1**
Europe (ex UK)	0.6	0.6	0.0
UK	0.2	0.2	-0.1
Asia	**0.4**	**0.4**	**0.0**
Asia (ex Japan)	0.1	0.1	0.0
Japan	0.3	0.3	0.0
Emerging all cap equities	**3.2**	**3.3**	**0.1**
Americas	**0.4**	**0.5**	**0.1**
Brazil	0.2	0.2	0.0
Mexico	0.2	0.2	0.0
Other	0.1	0.1	0.1
EMEA	**0.5**	**0.5**	**0.0**
Turkey	0.1	0.1	0.0
Russia and Eastern Europe	0.2	0.2	0.0
South Africa	0.2	0.2	0.0
Other	0.0	0.0	0.0
Asia	**2.3**	**2.3**	**0.0**
China	0.7	0.7	0.0
India	0.4	0.4	0.0
South Korea	0.5	0.5	0.0
Taiwan	0.4	0.4	0.0
Other Emerging Asia	0.3	0.3	0.0
Total	**100.0**	**100.0**	**0.0**

Strategic = benchmark; tactical = the Citi Private Bank Global Investment Committee's current view; and active = the difference between strategic and tactical. MBS = mortgage-backed securities; ABS = asset-backed securities. All allocations are subject to change at discretion of the GIC of the Citi Private Bank. *The tactical allocation corresponds to a maturity of 7 to 10 years. Minor differences may result due to rounding.

Risk Level 2: tactical allocations



Figures in brackets are the difference versus the strategic benchmark

Strategic = benchmark; tactical = the Citi Private Bank Global Investment Committee's current view; and active = the difference between strategic and tactical. All allocations are subject to change at discretion of the GIC of the Citi Private Bank.

Core positions

- Global equities are reduced to neutral position with global fixed income underweight maintained at -0.7%. Cash position is correspondingly increased to +0.7%.
- Within fixed income, developed sovereign remains the largest underweight at -4.7% and developed corporate investment grade the largest overweight at +2.7% followed by high-yield at +0.9%.
- Emerging market fixed income is increased to an overweight position of 0.3% with both Latin America and Asia at overweight positions and EMEA at neutral allocation.
- Within equities, developed equities are now at small underweight position driven by underweight in UK small and mid-cap equities.
- Emerging equities are now raised to small overweight position.

Risk Level 3

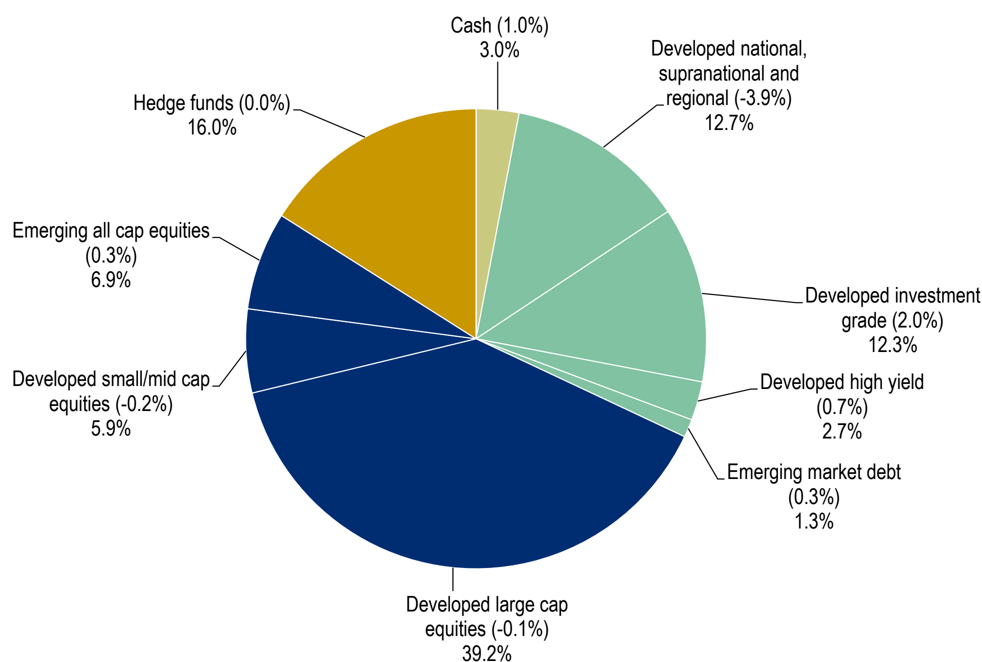
Risk Level 3 is designed for investors with a blended objective who require a mix of assets and seek a balance between investments that offer income and those positioned for a potentially higher return on investment. Risk level 3 may be appropriate for investors willing to subject their portfolio to additional risk for potential growth in addition to a level of income reflective of his/her stated risk tolerance.

Classification	Strategic (%)	Tactical* (%)	Active (%)
Cash	**2.0**	**3.0**	**1.0**
Fixed income	**30.0**	**29.0**	**-1.0**
Developed Investment Grade	**27.0**	**25.0**	**-2.0**
Developed national, supranational and regional	**16.6**	**12.7**	**-3.9**
Americas	**5.7**	**6.2**	**0.5**
EMEA	**6.9**	**4.9**	**-1.9**
UK	1.4	1.3	-0.1
Core Europe	3.0	2.2	-0.9
Peripheral Europe	2.2	1.4	-0.8
Others	0.2	0.1	-0.1
Asia	**3.7**	**1.2**	**-2.5**
Asia (ex Japan)	0.1	0.2	0.1
Japan	3.6	1.0	-2.6
Supranational	**0.3**	**0.3**	**0.0**
Developed corporate investment grade	**10.4**	**12.3**	**2.0**
Americas	**7.4**	**9.4**	**2.0**
US	7.1	9.1	2.0
Canada	0.3	0.3	0.0
EMEA	**2.9**	**2.9**	**0.0**
Europe (ex UK)	2.2	2.2	0.0
UK	0.7	0.7	0.0
Asia	**0.0**	**0.0**	**0.0**
Developed high yield	**2.0**	**2.7**	**0.7**
Americas	**1.6**	**1.9**	**0.3**
EMEA	**0.5**	**0.9**	**0.4**
Emerging market debt	**1.0**	**1.3**	**0.3**
Americas	**0.1**	**0.3**	**0.2**
EMEA	**0.1**	**0.1**	**0.0**
Asia	**0.8**	**0.9**	**0.1**
Hybrid investments	**16.0**	**16.0**	**0.0**
Hedge funds	**16.0**	**16.0**	**0.0**
Real assets	**0.0**	**0.0**	**0.0**
Commodities	**0.0**	**0.0**	**0.0**

Classification	Strategic (%)	Tactical* (%)	Active (%)
Equities	**52.0**	**52.0**	**0.0**
Developed Equities	**45.3**	**45.1**	**-0.3**
Developed large cap equities	**39.3**	**39.2**	**-0.1**
Americas	**24.8**	**24.8**	**0.0**
US all	23.5	23.5	0.0
Canada	1.4	1.4	0.0
EMEA	**9.1**	**9.1**	**0.0**
UK	3.0	3.0	0.0
Germany	1.2	1.2	0.0
France	1.3	1.3	0.0
Switzerland	1.4	1.4	0.0
Benelux	0.6	0.6	0.0
Scandi	0.8	0.8	0.0
Spain	0.4	0.4	0.0
Italy	0.3	0.3	0.0
Others	0.1	0.1	0.0
Asia	**5.3**	**5.2**	**-0.1**
Australasia	1.0	1.0	0.0
Far East ex Japan	0.7	0.7	0.0
Japan	3.6	3.6	0.0
Developed small/ mid cap equities	**6.1**	**5.9**	**-0.2**
Americas	**3.5**	**3.5**	**0.0**
EMEA	**1.7**	**1.5**	**-0.2**
Europe (ex UK)	1.3	1.3	0.0
UK	0.4	0.2	-0.2
Asia	**0.9**	**0.9**	**0.0**
Asia (ex Japan)	0.2	0.2	0.0
Japan	0.7	0.7	0.0
Emerging all cap equities	**6.7**	**6.9**	**0.3**
Americas	**0.8**	**1.1**	**0.3**
Brazil	0.4	0.4	0.0
Mexico	0.3	0.3	0.0
Other	0.1	0.4	0.3
EMEA	**1.0**	**1.0**	**0.0**
Turkey	0.1	0.1	0.0
Russia and	0.4	0.4	0.0
South Africa	0.4	0.4	0.0
Other	0.1	0.1	0.0
Asia	**4.8**	**4.8**	**0.0**
China	1.5	1.5	0.0
India	0.7	0.7	0.0
South Korea	1.0	1.0	0.0
Taiwan	0.8	0.8	0.0
Other Emerging Asia	0.7	0.7	0.0
Total	**100.0**	**100.0**	**0.0**

Strategic = benchmark; tactical = the Citi Private Bank Global Investment Committee's current view; and active = the difference between strategic and tactical. MBS = mortgage-backed securities; ABS = asset-backed securities. All allocations are subject to change at discretion of the GIC of the Citi Private Bank. *The tactical allocation corresponds to a maturity of 7 to 10 years. Minor differences may result due to rounding.

Risk Level 3: tactical allocations



Figures in brackets are the difference versus the strategic benchmark

Strategic = benchmark; tactical = the Citi Private Bank Global Investment Committee's current view; and active = the difference between strategic and tactical. All allocations are subject to change at discretion of the GIC of the Citi Private Bank.

Core positions

- Global equities are reduced to neutral position with global fixed income underweight maintained at -1.0%. Cash is now at an increased overweight position of +1.0%.
- Within fixed income, developed sovereign remains the largest underweight at -3.9%, with Euro-denominated debt at increased underweight position. Developed corporate investment grade remains the largest overweight at +2.0% followed by high-yield at +0.7%.
- Emerging market fixed income is raised to small overweight position of +0.3% with both Latin America and Asia at overweight positions and EMEA at neutral allocation.
- Within equities, developed equities are decreased to small underweight position driven by underweight position in UK small and mid-cap equities. US and Japan are now reduced to neutral allocation.
- Emerging equities are raised to small overweight position with increased allocation to Latin American equities.

Risk Level 4

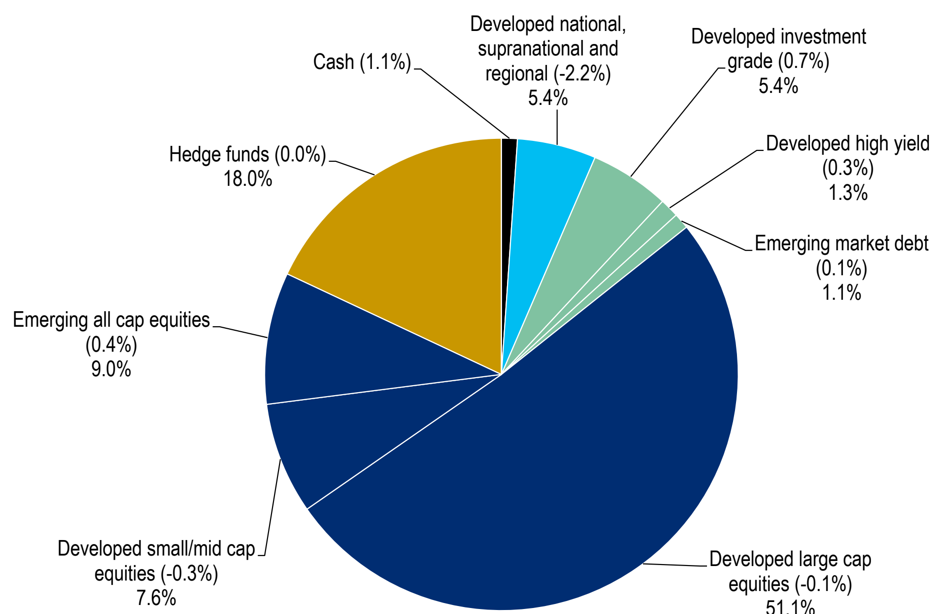
Risk Level 4 is designed for investors with a blended objective who require a mix of assets and seek a balance between investments that offer income and those positioned for a potentially higher return on investment. They are willing to subject a large portion of their portfolio to greater risk and market value fluctuations in anticipation of a potentially greater return on investment. Investors may have a preference for investments or trading strategies that may assume higher-than-normal market risks and/or potentially less liquidity with the goal (but not guarantee) of commensurate gains.

Classification	Strategic (%)	Tactical* (%)	Active (%)
Cash	**0.0**	**1.1**	**1.1**
Fixed income	**14.3**	**13.2**	**-1.1**
Developed Investment Grade	**12.3**	**10.8**	**-1.5**
Developed national, supranational and regional	**7.6**	**5.4**	**-2.2**
Americas	**2.6**	**2.7**	**0.1**
EMEA	**3.1**	**2.1**	**-1.0**
UK	0.6	0.6	-0.1
Core Europe	1.4	0.9	-0.5
Peripheral	1.0	0.6	-0.4
Others	0.1	0.0	-0.1
Asia	**1.7**	**0.5**	**-1.2**
Asia (ex Japan)	0.1	0.1	0.0
Japan	1.7	0.4	-1.3
Supranational	**0.1**	**0.1**	**0.0**
Developed corporate investment grade	**4.7**	**5.4**	**0.7**
Americas	**3.4**	**4.2**	**0.8**
US	3.2	4.0	0.8
Canada	0.1	0.1	0.0
EMEA	**1.3**	**1.3**	**-0.1**
Europe (ex UK)	1.0	1.0	0.0
UK	0.3	0.3	0.0
Asia	**0.0**	**0.0**	**0.0**
Developed high yield	**1.0**	**1.3**	**0.3**
Americas	**0.8**	**0.9**	**0.1**
EMEA	**0.2**	**0.4**	**0.2**
Emerging market debt	**1.0**	**1.1**	**0.1**
Americas	**0.1**	**0.2**	**0.1**
EMEA	**0.1**	**0.1**	**0.0**
Asia	**0.8**	**0.7**	**0.0**
Hybrid investments	**18.0**	**18.0**	**0.0**
Hedge funds	**18.0**	**18.0**	**0.0**
Real assets	**0.0**	**0.0**	**0.0**
Commodities	**0.0**	**0.0**	**0.0**

Classification	Strategic (%)	Tactical* (%)	Active (%)
Equities	**67.7**	**67.7**	**0.0**
Developed Equities	**59.0**	**58.7**	**-0.4**
Developed large cap equities	**51.1**	**51.1**	**-0.1**
Americas	**32.3**	**32.3**	**0.0**
US all	30.6	30.6	0.0
Canada	1.8	1.8	0.0
EMEA	**11.9**	**11.9**	**0.0**
UK	3.9	3.9	0.0
Germany	1.5	1.5	0.0
France	1.7	1.7	0.0
Switzerland	1.8	1.8	0.0
Benelux	0.8	0.8	0.0
Scandi	1.0	1.0	0.0
Spain	0.6	0.6	0.0
Italy	0.4	0.4	0.0
Others	0.2	0.2	0.0
Asia	**6.9**	**6.8**	**-0.1**
Australasia	1.3	1.3	-0.1
Far East ex Japan	0.9	0.8	0.0
Japan	4.7	4.7	0.0
Developed small/mid cap equities	**7.9**	**7.6**	**-0.3**
Americas	**4.5**	**4.5**	**0.0**
EMEA	**2.3**	**2.0**	**-0.3**
Europe (ex UK)	1.7	1.7	0.0
UK	0.6	0.3	-0.3
Asia	**1.1**	**1.1**	**0.0**
Asia (ex Japan)	0.3	0.3	0.0
Japan	0.9	0.9	0.0
Emerging all cap equities	**8.7**	**9.0**	**0.4**
Americas	**1.1**	**1.4**	**0.4**
Brazil	0.5	0.5	0.0
Mexico	0.4	0.4	0.0
Other	0.2	0.5	0.4
EMEA	**1.4**	**1.4**	**0.0**
Turkey	0.1	0.1	0.0
Russia and Eastern Europe	0.6	0.6	0.0
South Africa	0.6	0.6	0.0
Other	0.1	0.1	0.0
Asia	**6.2**	**6.2**	**0.0**
China	1.9	1.9	0.0
India	1.0	1.0	0.0
South Korea	1.4	1.4	0.0
Taiwan	1.1	1.1	0.0
Other Emerging Asia	0.9	0.9	0.0
Total	**100.0**	**100.0**	**0.0**

Strategic = benchmark; tactical = the Citi Private Bank Global Investment Committee's current view; and active = the difference between strategic and tactical. MBS = mortgage-backed securities; ABS = asset-backed securities. All allocations are subject to change at discretion of the GIC of the Citi Private Bank. *The tactical allocation corresponds to a maturity of 7 to 10 years. Minor differences may result due to rounding.

Risk Level 4: tactical allocations



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Strategic = benchmark; tactical = the Citi Private Bank Global Investment Committee's current view; and active = the difference between strategic and tactical. All allocations are subject to change at discretion of the GIC of the Citi Private Bank.

Core positions

- Global equities are reduced to neutral position with global fixed income underweight maintained at -1.1%. Cash is correspondingly increased to a +1.1% position.
- Within fixed income, developed sovereign remains the largest underweight at -2.2% and developed corporate investment grade largest overweight at +0.7%.
- Both emerging debt and high yield fixed income are now at small overweight positions.
- Within equities, developed equities are now underweight by 0.4% driven by underweight position in UK small and mid-cap equities. US and Japan are reduced to neutral allocation.
- Emerging equities are raised to small overweight position with increased allocation to Latin American equities.

Risk Level 5

Risk Level 5 is designed for investors who emphasize return on investment. They are willing to subject their entire portfolio to greater risk and market value fluctuations in anticipation of a potentially greater return on investments. Investors may have a preference for investments or trading strategies that may assume higher-than-normal market risks and/or potentially less liquidity with the goal (but not guarantee) of commensurate gains. Clients may engage in tactical or opportunistic trading, which may involve higher volatility and variability of returns.

Classification	Strategic (%)	Tactical* (%)	Active (%)
Cash	**0.0**	**0.0**	**0.0**
Fixed income	**0.0**	**0.0**	**0.0**
Developed Investment Grade	**0.0**	**0.0**	**0.0**
Developed national, supranational and regional	**0.0**	**0.0**	**0.0**
Developed Corporate Investment Grade	**0.0**	**0.0**	**0.0**
Americas	**0.0**	**0.0**	**0.0**
EMEA	**0.0**	**0.0**	**0.0**
Europe (ex UK)	0.0	0.0	0.0
UK	0.0	0.0	0.0
Asia	**0.0**	**0.0**	**0.0**
Asia (ex Japan)	0.0	0.0	0.0
Japan	0.0	0.0	0.0
Developed high yield	**0.0**	**0.0**	**0.0**
Americas	**0.0**	**0.0**	**0.0**
EMEA	**0.0**	**0.0**	**0.0**
Asia	**0.0**	**0.0**	**0.0**
Emerging market debt	**0.0**	**0.0**	**0.0**
Americas	**0.0**	**0.0**	**0.0**
EMEA	**0.0**	**0.0**	**0.0**
Asia	**0.0**	**0.0**	**0.0**
Equities	**80.0**	**80.0**	**0.0**
Global Developed Equities	**69.8**	**69.3**	**-0.4**
Developed large cap equities	**60.4**	**60.3**	**-0.1**
Americas	**38.2**	**38.2**	**0.0**
US all	36.1	36.1	0.0
Canada	2.1	2.1	0.0
EMEA	**14.1**	**14.1**	**0.0**
UK	4.6	4.6	0.0
Germany	1.8	1.8	0.0
France	2.0	2.0	0.0
Switzerland	2.2	2.2	0.0
Benelux	0.9	0.9	0.0
Scandi	1.2	1.2	0.0
Spain	0.7	0.7	0.0
Italy	0.5	0.5	0.0
Others	0.2	0.2	0.0

Classification	Strategic (%)	Tactical* (%)	Active (%)
Asia	**8.1**	**8.1**	**-0.1**
Australasia	1.6	1.5	-0.1
Far East ex Japan	1.0	1.0	0.0
Japan	5.6	5.6	0.0
Developed small/mid cap equities	**9.4**	**9.0**	**-0.4**
Americas	**5.3**	**5.3**	**0.0**
EMEA	**2.7**	**2.3**	**-0.4**
Europe (ex UK)	2.0	2.0	0.0
UK	0.7	0.3	-0.4
Asia	**1.4**	**1.4**	**0.0**
Asia (ex Japan)	0.3	0.3	0.0
Japan	1.0	1.0	0.0
Emerging all cap equities	**10.2**	**10.7**	**0.4**
Americas	**1.3**	**1.7**	**0.5**
Brazil	0.6	0.6	0.0
Mexico	0.5	0.5	0.0
Other	0.2	0.7	0.5
EMEA	**1.6**	**1.6**	**0.0**
Turkey	0.2	0.2	0.0
Russia and Eastern Europe	0.7	0.7	0.0
South Africa	0.7	0.7	0.0
Other	0.1	0.1	0.0
Asia	**7.4**	**7.4**	**0.0**
China	2.3	2.3	0.0
India	1.1	1.1	0.0
South Korea	1.6	1.6	0.0
Taiwan	1.3	1.3	0.0
Other Emerging Asia	1.0	1.0	0.0
Hybrid investments	**20.0**	**20.0**	**0.0**
Hedge funds	**20.0**	**20.0**	**0.0**
Real assets	**0.0**	**0.0**	**0.0**
Commodities	**0.0**	**0.0**	**0.0**
Gold	**0.0**	**0.0**	**0.0**
Total	**100.0**	**100.0**	**0.0**

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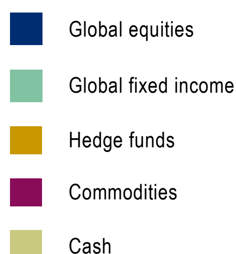
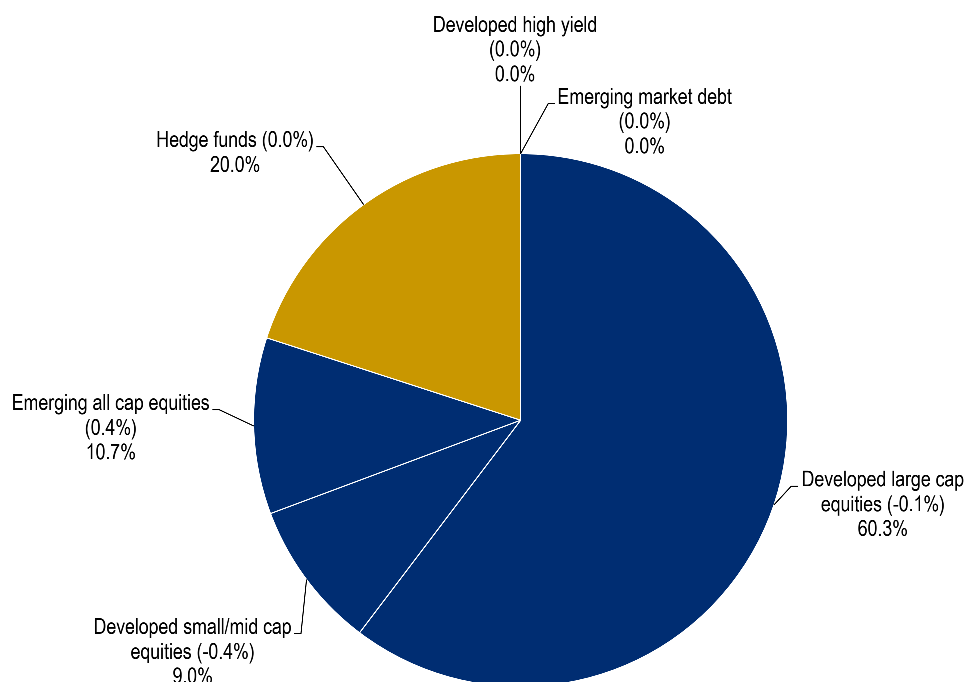
Risk level 5: tactical allocations





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Core positions

- Developed equities are reduced to small underweight position and emerging equities raised to small overweight position of +0.4%.
- Within developed equities, both US and Japan are reduced to neutral with UK small and mid-cap equities decreased to small underweight.
- Within emerging equities, Latin American equities are now increased to overweight position with both Asia and EMEA staying at neutral allocation.

Asset allocation definitions

Asset classes	Benchmarked against
Global equities	MSCI All Country World Index, which represents 48 developed and emerging equity markets. Index components are weighted by market capitalization.
Global bonds	Barclays Capital Multiverse (Hedged) Index, which contains the government -related portion of the Multiverse Index, and accounts for approximately 14% of the larger index.
Hedge funds	HFRX Global Hedge Fund Index, which is designed to be representative of the overall composition of the hedge fund universe. It comprises all eligible hedge fund strategies; including but not limited to convertible arbitrage, distressed securities, equity hedge, equity market neutral, event driven, macro, merger arbitrage and relative value arbitrage. The strategies are asset-weighted based on the distribution of assets in the hedge fund industry.
Commodities	Dow Jones-UBS Commodity Index, which is composed of futures contracts on physical commodities traded on US exchanges, with the exception of aluminum, nickel and zinc, which trade on the London Metal Exchange (LME). The major commodity sectors are represented including energy, petroleum, precious metals, industrial metals, grains, livestock, softs, agriculture and ex-energy. The Thomson Reuters / Core Commodity Index is designed to provide timely and accurate representation of a long-only, broadly diversified investment in commodities through a transparent and disciplined calculation methodology.
Cash	Three-month LIBOR, which is the interest rates that banks charge each other in the international inter-bank market for three-month loans (usually denominated in Eurodollars).
Equities	
Developed market large cap	MSCI World Large Cap Index, which is free-float adjusted and weighted by market capitalization. The index is designed to measure the equity market performance of the large cap stocks in 23 developed markets. Large cap is defined as stocks representing roughly 70% of each market's capitalization.
US	Standard & Poor's 500 Index, which is a capitalization-weighted index that includes a representative sample of 500 leading companies in leading industries of the US economy. Although the S&P 500 focuses on the large cap segment of the market, with over 80% coverage of US equities, it is also an ideal proxy for the total market.
Europe ex UK	MSCI Europe ex UK Large Cap Index, which is free-float adjusted and weighted by market capitalization. The index is designed to measure large cap stock performance in each of Europe's developed markets, except for the UK.
UK	MSCI UK Large Cap Index, which is free-float adjusted and weighted by market capitalization. The index is designed to measure large cap stock performance in the UK.
Japan	MSCI Japan Large Cap Index, which is free-float adjusted and weighted by market capitalization. The index is designed to measure large cap stock performance in Japan.
Asia Pacific ex Japan	MSCI Asia Pacific ex Japan Large Cap Index, which is free-float adjusted and weighted by market capitalization. The index is designed to measure the performance of large cap stocks in Australia, Hong Kong, New Zealand and Singapore.
Developed market small and mid-cap (SMID)	MSCI World Small Cap Index, which is a capitalization-weighted index that measures small cap stock performance in 23 developed equity markets.
Emerging market	MSCI Emerging Markets Index, which is free-float adjusted and weighted by market capitalization. The index is designed to measure equity market performance of 22 emerging markets.
Bonds	
Developed sovereign	Citi World Government Bond Index (WGBI), which consists of the major global investment grade government bond markets and is composed of sovereign debt, denominated in the domestic currency. To join the WGBI, the market must satisfy size, credit and barriers-to-entry requirements. In order to ensure that the WGBI remains an investment grade benchmark, a minimum credit quality of BBB–/Baa3 by either S&P or Moody's is imposed. The index is rebalanced monthly.
Emerging sovereign	Citi Emerging Market Sovereign Bond Index (ESBI), which includes Brady bonds and US dollar -denominated emerging market sovereign debt issued in the global, Yankee and Eurodollar markets, excluding loans. It is composed of debt in Africa, Asia, Europe and Latin America. We classify an emerging market as a sovereign with a maximum foreign debt rating of BBB+/Baa1 by S&P or Moody's. Defaulted issues are excluded.
Supranationals	Citi World Broad Investment Grade Index (WBIG)—Government Related, which is a subsector of the WBIG. The index includes fixed rate investment grade agency, supranational and regional government debt, denominated in the domestic currency. The index is rebalanced monthly.
Corporate investment grade	Citi World Broad Investment Grade Index (WBIG)—Corporate, which is a subsector of the WBIG. The index includes fixed rate global investment grade corporate debt within the finance, industrial and utility sectors, denominated in the domestic currency. The index is rebalanced monthly.
Corporate high yield	Barclays Global High Yield Corporate Index. Provides a broad-based measure of the global high yield fixed income markets. It is also a component of the Multiverse Index and the Global Aggregate Index.
Securitized	Citi World Broad Investment Grade Index (WBIG)—Securitized, which is a subsector of the WBIG. The index includes global investment grade collateralized debt denominated in the domestic currency, including mortgage -backed securities, covered bonds (Pfandbriefe) and asset-backed securities. The index is rebalanced monthly.

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